

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 FEA-02

AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00

FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 PA-04 USIA-15 PRS-01 DRC-01 /230 W

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R 231555Z SEP 74

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 429

INFO AMEMBASSY ABU DHABI

USINT ALGIERS

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LAGOS

AMEMBASSY LONDON

USMISSION OECD PARIS

AMEMBASSY QUITO

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

UNCLAS BEIRUT 11517

E.O. 11652: N/A

TAGS: ENRG, EFIN, OPEC

SUBJECT: MEES CALCULATION OF OPEC TAX INCREASES

REF: LAGOS 8888, BEIRUT 11180 (NOTAL)

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SUMMARY: MIDDLE EAST ECONOMIC SURVEY (MEES) SEPTEMBER

20 CALCULATES THAT OPEC OCTOBER 1 TAX/ROYALTY INCREASES DECIDED AT VIENNA WILL INCREASE AVERAGE GOVERNMENT TAKE IN GULF BY 28.3 TO 35.5 CENTS/BBL, ASSUMING FULL SALE OR BUY-BACK GOVERNMENT'S 60 PER CENT SHARE OF CRUDE. MEES ADDS THAT GULF GOVERNMENTS' SHARE OF NET PROFITS THEREFORE WILL RISE FROM 61.525 TO 71.460 PER CENT OF POSTED PRICE AND THAT OTHER FISCAL REGIMES --- ALGERIA, LIBYA, NIGERIA, VENEZUELA --- MAY ADJUST LEVIES TO ACHIEVE EQUIVALENT INCREASE THEIR GOVERNMENT TAKE. MEES ARTICLE PROBABLY USEFUL ADDRESSEES AND THEREFORE FOLLOWS. END SUMMARY

1. MEES CALCULATIONS OF OPEC TAX AND ROYALTY INCREASES: AS A RESULT OF THE TAX AND ROYALTY INCREASE DECIDED AT THE OPEC CONFERENCE IN VIENNA LAST WEEK (SUPPLEMENT TO MEES, 13 SEPTEMBER), THE AVERAGE GOVERNMENT TAKE ON CRUDE OIL PRODUCTION IN THE GULF WILL RISE AS OF 1 OCTOBER BY BETWEEN 28.3 AND 35.5 CENTS/BARREL, ACCORDING TO MEES CALCULATIONS BASED ON A THEORETICAL FULL SALE OR BUY-BACK OF THE GOVERNMENTS' 60 PERCENT SHARE OF OUTPUT. ADDING THE PREVIOUS 2 PERCENT INCREASE IN ROYALTIES EFFECTIVE 1 JULY THE TOTAL RISE IN GOVERNMENT TAKE OVER FIRST HALF 1974 AMOUNTS TO BETWEEN 37.5 AND 45.8 CENTS/BARREL.

2. IN THE GULF MEMBER STATES OF OPEC, THE ROYALTY RATE WILL BE RAISED FROM THE CURRENT 14.5 PERCENT TO 16.67 PERCENT AND THE TAX RATE FROM THE CURRENT 55 PERCENT TO 65.75 PERCENT, EFFECTIVE 1 OCTOBER. THE GOVERNMENT'S SHARE OF NET PROFITS (CALCULATED ON POSTED PRICES) THUS INCREASES FROM 61.525 PERCENT TO 71.460 PERCENT. IN OTHER AREAS - SUCH AS VENEZUELA, NIGERIA, ALGERIA AND LIBYA - WHERE THE FISCAL SYSTEM AND/OR THE PERCENTAGE OF STATE PARTICIPATION DIFFERS FROM THAT OF THE GULF, THE TAX RATE WILL PRESUMABLY BE ADJUSTED TO THE EXTENT NECESSARY TO PRODUCE AN EQUIVALENT INCREASE IN GOVERNMENT TAKE, IN PERCENTAGE TERMS, AS ACHIEVED IN THE GULF.

3. FOR THE BENCHMARK CRUDE, 34 DEGREE API ARABIAN LIGHT, THE INCREASE IN GOVERNMENT TAKE ON 1 OCTOBER CALCULATED IN LINE WITH THE OPEC FORMULA WILL AMOUNT TO SOME 33 CENTS/ UNCLASSIFIED UNCLASSIFIED

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BARREL, OR 3.5 PERCENT, BRINGING THE TOTAL RISE SINCE 1 JANUARY TO 42.3 CENTS/BARREL. (IN THIS CONNECTION, IT SHOULD BE NOTED THAT VARYING ESTIMATES OF THE ACTUAL SIZE OF THE 1 OCTOBER INCREASE HAVE RESULTED FROM CONFUSION OVER THE APPLICABLE BUY-BACK PRICE OF 94.846 PERCENT OF POSTING FOR THE THIRD QUARTER AND 93 PERCENT AS OF 1 OCTOBER. HAD THE SAME BUY-BACK PRICE - 94.846 PERCENT - BEEN USED FOR THE 1 OCTOBER FIGURE AS WELL AS THE THIRD QUARTER, THE INCREASE WOULD HAVE BEEN IN THE REGION OF 46 CENTS/BARREL.) NATURALLY,

THE FIGURES FOR SAUDI ARABIA ARE ONLY THEORETICAL,
SINCE THE GOVERNMENT HAS DECIDED NOT TO APPLY EITHER
THE 1 JUNE ROYALTY INCREASE OR THE 1 OCTOBER TAX AND
ROYALTY INCREASES FOR THE TIME BEING, PENDING THE
COMPLETION OF NEW ARRANGEMENTS WITH THE FOREIGN
OWNERS OF ARAMCO.

4. AT THE SAME TIME, THE 1 OCTOBER INCREASE IN TAX AND
ROYALTY RATES ON THE COMPANIES' 40 PERCENT SHARE OF
PUTPUT WILL RAISE THE TAX-PAID COST OF EQUITY CRUDE BY
MARGINS VARYING FROM \$1.03 TO \$1.24/BARREL, BRINGING TOTAL
INCREASES SINCE 1 JANUARY TO \$1.13-\$1.35/BARREL.
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